

1954

CONGRESSIONAL RECORD — DAILY DIGEST

D123

H. R. 6290, relative to discontinuing certain reports now required by law, amended (H. Rept. 1193);

H. J. Res. 300, to provide for the conveyance to the Texas Hill Country Development Foundation of certain surplus land situated in Kerr County, Tex. (H. Rept. 1194); and

H. R. 7371, to provide for the disposal of paid postal-savings certificates, amended (H. Rept. 1195).

Pages 1361-1362

No legislation was considered by the House. Under special orders Representatives Bentley, Davis of Georgia, and Madden addressed the House.

Program for Tuesday: Adjourned at 1:40 p. m. until Tuesday, February 9, at 12 o'clock noon, when the House will act on the conference report on H. J. Res. 358, to discharge indebtedness of the Commodity Credit Corporation.

Committee Meetings

MEXICAN FARM LABOR

Committee on Agriculture: Opposition to H. J. Res. 355, amending the act of 1951, relative to supplying agricultural workers from the Republic of Mexico, was expressed today by the following officials of the CIO—R. J. Thomas, assistant executive vice president, who also appeared on behalf of President Walter Reuther; Irvin De Shelter, acting regional director for California; John Edelman and Paul Sifton, representing the legislative committee. The committee also heard Katherine Ellickson, of the Labor Advisory Committee, Department of Labor. Recessed until tomorrow morning when AFL and National Cotton Council representatives are scheduled to testify.

ASPHALT VS. CONCRETE

Committee on Armed Services: The Subcommittee on Defense concluded the present series of hearings regarding its study and survey of the relative merits of using concrete as against asphalt in airstrip paving. Representatives of the Corps of Engineers (Army) testified today, as follows—Gayle McFadden, who spoke on research and development of airstrip programming; Belman Duvall, Ohio River Laboratories Division; and Col. Herman Orr, airstrip instruction, inspection, and investigation. The subcommittee will resume on the subject at call of the Chair.

U. S. FOREIGN POLICY

Committee on Foreign Affairs: The Subcommittee on Foreign Economic Policies heard testimony today on behalf of H. J. Res. 350, to promote U. S. foreign policy by fostering international travel and the exchange of persons. Witnesses testifying were Samuel W. Anderson, Assistant Secretary of Commerce for International Affairs; Thorston V. Kalijarvi, Deputy Assistant Secretary of State for Economic Affairs; Robert Wall, Deputy

Director, International Trade Development Commission, Bureau of Foreign Commerce, Department of Commerce; and Russell L. Riley, Director, International Educational Exchange Service, Department of State.

HAWAII

Committee on Interior and Insular Affairs: Subcommittee on Territories approved for reporting to the full committee H. R. 2848, to place the wharves and landings constructed or controlled by the Republic of Hawaii completely under the Territorial government (now subject to further decisions by Congress, and to be used without payment by vessels, etc., of the United States). Speaking in support of the resolution was Victor A. M. Edwards, Chief Counsel, Office of Territories, Department of the Interior.

IMMIGRATION

Committee on the Judiciary: Subcommittee No. 1 approved 6 private House immigration bills for reporting to the full committee, and reported adversely on 1 other.

GENERAL TAX REVISIONS

Committee on Ways and Means: Announced decision today to withdraw from the pending 1954 tax-revision bill the previously announced proposal to tax the interest on certain local housing bonds; and agreed to a change in its previously announced proposal to tax the interest on certain municipal industrial development revenue bonds. Instead of taxing the interest, the amendment now would simply disallow the deduction of amounts, such as rent, paid or accrued by the industrial lessee to the municipality which issues the bonds.

Also agreed to the following substantive changes in the bill—

TAXATION OF TRUSTS AND ESTATES

The committee has adopted a series of provisions designed to simplify and present in a more logical pattern the code provisions relating to the taxation of trusts and estates and their beneficiaries. The provision of a separate group of simple rules for the ordinary trust is an example of this simplification. The committee has also placed in the code essential provisions presently found in only regulations or court decisions. A number of substantive changes in the tax treatment of trusts and estates has also been made. Among the more important are the increase in a trust's personal exemption from \$100 to \$300 and the adoption of a uniform "distributable net income" measure for distributions taxable to beneficiaries. The adoption of this measure makes it possible to eliminate the complicated 65-day and 12-month rules and also gives beneficiaries assurance that they will be taxed only on income deductible to the trust. The adoption of a "5-year throwback" rule represents the plugging of an important tax-avoidance loophole. Other important changes include the codifying of rules to provide how beneficiaries are to share capital gain and other types of income, provision for use by beneficiaries of loss carryovers presently wasted when trusts are terminated, and codifying certain rules now contained in regulations (known as the Clifford regulations) to determine when the grantor (or others besides the beneficiaries) are treated as the substantial owner of the trust property and as a result taxable on its income.

1. *Rules of general application:* As under present law, the committee-adopted provisions provide that trusts and estates are

to be taxable on their earnings after allowance for certain credits, deductions, and distributions to beneficiaries.

The credits and deductions provided are substantially the same as under present law with two exceptions—(a) the deduction for a personal exemption was increased from \$100 to \$300 (the present \$600 for estates remains unchanged) to make it possible for small trusts to add capital gains to principal without paying tax; and (b) an exclusion is allowed for the first \$50 or \$100 of dividend income and a tax credit equal to 5, 10, or 15 percent of any remaining income, to align the tax treatment of trusts and estates with the previously adopted general dividend provision.

The "distributable net income" of the trust or estate is defined as its taxable income less capital gains and losses (not distributable under the trust instrument), special dividends allocated to principal (in the case of trusts described in No. 2 below), tax-exempt interest, the dividend exclusion, and foreign income in the case of foreign trusts. This "distributable net income" represents the extent to which beneficiaries can be taxed on distributions from the trust and the extent to which the trust can receive deductions for distributions. The use of the uniform "distributable net income" represents a departure from present law which uses different measures for different types of distributions, is dependent on various State law definitions of distributable income and must use the complex 65-day and 12-month rules to prevent tax avoidance. Under the committee provisions the tax treatment of trusts and their beneficiaries will be uniform in the various States, beneficiaries will not be taxed on income which would not be taxed to the trusts and the purpose of the 65-day and 12-month rules will be accomplished without the use of these complex rules.

2. "Simple" trusts: A trust (but not an estate) may qualify under the committee's "simple trust" provisions if all of its income is distributed currently and it makes no charitable distributions. If it makes occasional distributions out of principal it is disqualified only for the years in which the principal is distributed. Qualifying trusts are allowed to deduct distributions made to the extent of their "distributable net income" and beneficiaries are required to include the distributions in their incomes for tax purposes only to the same extent. The character of the income to the beneficiaries is the same as it was to the trust (e. g., capital gains to the trust or capital gains to the beneficiaries) and a specific rule is provided to divide up the various types of income among the beneficiaries. Essentially this treatment is the same as present law but for these trusts many complicated provisions are separated and made inapplicable.

3. "Complex" trusts and estates: Other trusts and all estates under the committee provisions are provided for under a second set of rules. These trusts or estates are allowed to deduct—(a) distributions made out of current income; and (b) after that all other amounts (other than gifts or bequests) distributed but only to the extent of the "distributable net income."

This is essentially present law treatment but this result is accomplished without having to use the complicated 65-day and 12-month rules. This is made possible by the use of the trust's "distributable net income" as a measure of income taxable to beneficiaries. Beneficiaries of these trusts (or estates) are required to include in their income for tax purposes distributions made to them out of the trust's current income and then other distributions made to them to the extent of their proportionate share of the amount allowed as a deduction to the trust. The income to the beneficiaries, as in the case of the simple trusts,

retains the same character it had in the hands of the trust with each beneficiary considered as receiving his proportionate share of all types of the income distributed. Upon termination of the trust (or estate) any of its net operating loss or capital loss carryovers which have not been used are to be made available to the distributees. At present these loss carryovers are wasted.

4. "Five-year throwback rule": Under present law by accumulating for a year or two and then distributing both current and accumulated income it is possible to have much of a trust's income taxed at the trust's relatively low tax rate rather than at a beneficiary's higher rate. The committee provisions plug this loophole by providing in the case of the "complex" trusts that distributions of the trust in excess of its current "distributable net income" are to be attributed back to each of the 5 prior years. To the extent the "distributable net income" of those years was not distributed the beneficiaries are taxed on current distributions in excess of current "distributable net income." To prevent a double tax on this income, the beneficiaries are given a credit for the tax previously paid by the trust on this income but must include their share of the trust's tax in their income when taking the credit. The income is taxed to the beneficiary in the year he receives it but his own tax on this income is not to be higher than if would have been had he received the income in the year in which it was taxed to the trust. This provision applies only to accumulations in years beginning after December 31, 1953.

This rule does not apply to—(a) accumulations distributed to an individual on his reaching age 21; (b) distributions for the support or education of a beneficiary; (c) distributions by an estate; or (d) distributions which do not exceed the current "distributable net income" by \$2,000.

Committee recessed until tomorrow morning.

Joint Committee Meetings

PRESIDENT'S ECONOMIC REPORT

Joint Committee on the Economic Report: Continuing its hearings on the President's economic report, committee today held a panel discussion on the private investment outlook and implications for Federal economic policy. Topics for discussion today were (1) plant and equipment, (2) residential construction, (3) inventories, (4) productivity and distribution of increased productivity, (5) taxation and private investment, and (6) general. Testimony was heard from the following witnesses: Dexter M. Keezer, director, department of economics, McGraw-Hill Publishing Co., Inc., New York City; Walter Hoadley, economist, Armstrong Cork Co., Lancaster, Pa.; Ralph Watkins, Dun & Bradstreet, Inc., New York City; Stanley H. Ruttenberg, director, department of education and research, CIO; George Terborgh, director of research, Machinery and Allied Products Institute, Washington, D. C.; and M. Joseph Meehan, Director, Office of Business Economics, Commerce Department. Hearings continue tomorrow.